Recent Seventh Circuit Case Provides Additional Insured Warning and Extracontractual Guardrails

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Atlanta Gas Light Co. v. Navigators Insurance Co., 164 F.4th 1038 (7th Cir. 2026)

I. Background

Atlanta Gas Light Company and its parent (collectively, AGL) hired United States Infrastructure Corporation (USIC) to locate and mark gas lines in Georgia. USIC's service agreement required it to procure primary and excess liability insurance, naming AGL as an additional insured. USIC carried a primary policy with Zurich and an excess policy with Navigators Insurance Company.

In 2018, USIC failed to properly mark a gas line, and a contractor struck the line, causing an explosion at a café that severely injured three people. AGL, USIC, and the injured parties participated in a pre-suit mediation in 2019. USIC settled first, exhausting its primary policy limits. Navigators did not attend the mediation. The plaintiffs then filed suit against AGL in Georgia state court (the "underlying suits"), alleging negligence based solely on AGL's own conduct.

AGL tendered defense and indemnity to Navigators as an additional insured. Navigators denied coverage, concluding that AGL was not an additional insured under the excess policy because the suits did not allege wrongdoing by USIC. AGL sued Navigators in Indiana federal court for breach of contract, breach of fiduciary duty, and bad faith. The district court ruled largely in Navigators' favor regarding the fiduciary duty and bad faith claims, but it held that AGL *was* an additional insured under the policy. Both sides appealed. The U.S. Court of Appeals for the Seventh Circuit affirmed the district court holding.

II. Holdings

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A. No Duty Owed by Excess Insurer Prior to Primary Insurance Exhaustion

The Seventh Circuit squarely rejected AGL's argument that Navigators had duties before the primary policy was exhausted, even though severe injuries made exhaustion foreseeable.

The excess policy provided that Navigators had the *right, but not the duty*, to participate in defense or settlement before exhaustion and assumed duties only after exhaustion of the controlling underlying insurance. The court reasoned that Under Indiana law, excess liability "arises only after the limits of the primary policy are exhausted."

For excess carriers, the Seventh Circuit's decision reinforces that no fiduciary or good faith duties attach solely because exhaustion of primary insurance appears likely, and that unambiguous exhaustion trigger language will be enforced as written.

B. Additional Insured Status Existed Despite Pleadings Targeting Only the Additional Insured

Although the underlying suits named only AGL and focused on its alleged failures, the Seventh Circuit held that AGL qualified as an additional insured under the excess policy.

The policy covered additional insureds for liability "caused, in whole or in part," by USIC's acts or omissions. Significantly, the court emphasized that insurers must consider known facts, not just the complaint's text, when assessing defense obligations under Indiana law.

The court rejected Navigators' argument that USIC's settlement and release eliminated causation, explaining that settlements do not constitute adjudications of fault and do not negate underlying proximate cause.

Insurers should anticipate that additional insured status may exist even when the complaint pleads only the additional insured's conduct, and releasing the named insured does not eliminate additional insured coverage exposure under causation based

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endorsements.

C. No Bad Faith Despite Incorrect Coverage Denial

Although Navigators ultimately lost on the coverage question, the court held that Navigators did not act in bad faith.

In this ruling, the Seventh Circuit solidified that, under Indiana law, bad faith requires clear and convincing evidence of a state of mind reflecting dishonest purpose, ill will, or moral obliquity. The court found that Navigator's conduct did not show this. Importantly, the claim file showed that Navigators consistently believed AGL was not an additional insured. The claims file also contained no evidence indicating Navigators misled AGL, exploited delay, or acted with improper motive.

D. Claim Handling and Insurer Coordination Did Not Create Bad Faith

AGL argued that bad faith arose from Navigators' claims handling conduct. Specifically, AGL argued that assigning a single claim number and adjuster for multiple insureds, communicating primarily with USIC's counsel, and coordinating denial letters with Zurich and USIC's attorneys constituted bad faith conduct.

The court rejected each contention, reasoning that there was no evidence of collusion or ill will, which is required under Indiana bad faith law.

This underscores the importance of maintaining well-documented, principled rationales for coverage decisions related to potential insureds and internally.

E. No Fiduciary Duty Absent a Defense Obligation

Finally, the Seventh Circuit held that because Navigators had no duty to defend before exhaustion and no bad faith afterward, the fiduciary-duty claim necessarily failed. Indiana law recognizes a fiduciary relationship only when an insurer undertakes defense of third-party claims. Without that duty, there can be no breach.

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III. Why This Case Matters for Insurance Companies

The *Atlanta Gas Light Co. v. Navigators Insurance Co.* decision is a strong affirmation of traditional excess insurance principles while serving as a cautionary reminder on additional insured endorsements.

For insurers, the ruling underscores the following key takeaways:

- Precise and unambiguous excess policy triggering language can, in some cases, protect an excess insurer from the duty to investigate, even when exhaustion of primary policy is foreseeable.
- A pre-suit settlement and exclusion of the named insured from the underlying lawsuit does not prevent a party from being an additional insured under an excess policy if the named insured was still a proximate cause of the incident.
- Clear documentation supporting coverage positions is paramount to defeating bad faith claims.
- Incorrect coverage determinations are defensible if reasonably grounded and properly handled.

If you're facing complex coverage and extra-contractual claims or need further guidance on policy considerations in light of this Seventh Circuit ruling, our team is ready to assist. Please contact the authors or any attorney with FBT Gibbons' Insurance Coverage and Bad Faith practice.

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